

# ***Lewis-Clark State College***

*Financial Statements for the  
Year Ended June 30, 2004 and  
Independent Auditors' Reports*

# LEWIS-CLARK STATE COLLEGE

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## INDEPENDENT AUDITORS' REPORT

To the State Board of Education:

We have audited the accompanying statement of net assets of Lewis-Clark State College (the "College") and its discretely presented component unit as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Lewis-Clark State College and its discretely presented component unit at June 30, 2004, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the College adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14*.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2004 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche LLP*

October 29, 2004

# LEWIS-CLARK STATE COLLEGE

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2004

### *Overview of the Financial Statements and Financial Analysis*

Lewis-Clark State College (the "College") is pleased to present its financial statements for fiscal year 2004. Comparative data for fiscal year 2003 will not be reflected. For the year ended June 30, 2004, the College adopted Governmental Accounting Standards Board's ("GASB") Statement 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement 14*. As defined by GASB Statement No. 39, the Lewis-Clark State College Foundation, Inc. (the "Foundation") is considered a component unit of the College and is discretely presented in the College's financial statements. Three financial statements are included for both the College and the Foundation: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year.

### *Statement of Net Assets*

The Statement of Net Assets present the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point in time financial statement intended to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to ascertain how much the College owes vendors, grantors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, indicates the net equity in property, plant and equipment owned by the College. The next net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the College, but must be spent for purposes specified by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the College to utilize in any legal fashion in accordance with the State Board of Education specified role and mission.

## 2004 SUMMARY STATEMENT OF NET ASSETS

### ASSETS:

Current assets	\$ 9,688,194
Property, plant and equipment—net	25,683,227
Other assets	<u>1,705,478</u>
Total assets	<u>\$37,076,899</u>

### LIABILITIES:

Current liabilities	\$ 5,041,046
Noncurrent liabilities	<u>6,996,405</u>
Total liabilities	<u>\$ 12,037,451</u>

### NET ASSETS:

Invested in capital assets, net of related debt	\$ 18,662,356
Restricted—nonexpendable	2,852
Restricted—expendable	1,385,939
Unrestricted	<u>4,988,301</u>
Total net assets	<u>\$ 25,039,448</u>

Total assets of the College increased by \$3,384,507 in fiscal year 2004. Property, plant and equipment increased \$2,221,522, representing 66% of the increase to total assets. This increase was primarily due to the recognition of construction in progress associated with the Student Activity Center currently under construction. Cash increased \$574,066 over the amount reported in fiscal year 2003. This reflects the fact that the carryover appropriated funds held by the State Treasurer were significantly higher than at the end of the previous year. In addition, accounts receivable and unbilled charges increased \$461,807 in fiscal year 2004. This was primarily due to an increase in restricted grant and contract receivables of \$262,259, which increased due to new federal grants received by the College.

Total liabilities of the College decreased by \$180,265 in fiscal year 2004. This overall reduction was minor, representing only 1.5% of the total liabilities at June 30, 2004. However, there were changes in several of the different liability categories. Funds held in custody for others *decreased* \$1,080,619, while notes and bonds payable *increased* \$922,109. Both fluctuations were related to the construction of the new Student Activity Center. The reduction in funds held in custody for others relates primarily to a transfer to the Idaho State Building Authority of \$1,285,000 of Foundation construction funds held by the College. The net increase in notes and bonds payable is largely due to a new secured note in the amount of \$1,126,307 signed in July of 2003. The net increase to notes and bonds payable is less than the amount of this note as scheduled payments of principal on other notes and bonds offset this increase.

### *Statement of Revenues, Expenses and Changes in Net Assets*

Changes in total net assets, as presented on the Statement of Net Assets, are specifically depicted by the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the revenues received by the College, operating and nonoperating, the expenses paid by the College, operating and nonoperating, and all other revenues, expenses, gains and losses received or spent by the College.

Generally speaking, operating revenues are received in return for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the role and mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are deemed nonoperating because they are provided by the Legislature to the College without the Legislature directly receiving commensurate value in return for those revenues.

## 2004 SUMMARY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

### OPERATING REVENUES:

Student fees (net of scholarship discounts and allowances of \$3,194,189)	\$ 1,775,395
Federal grants and contracts	6,519,353
State and local grants and contracts	2,339,425
Private grants and contracts	695,354
Sales and services of educational activities	1,165,504
Sales and services of auxiliary enterprises	2,368,564
Other	<u>395,709</u>
Total operating revenues	15,259,304

OPERATING EXPENSES	<u>36,828,038</u>
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OPERATING LOSS	(21,568,734)
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### NONOPERATING REVENUES (EXPENSES):

State appropriations	21,972,133
Gifts	2,336,869
Net investment income	109,678
Interest on capital asset related debt	(383,046)
Other	<u>(8,927)</u>
Net nonoperating revenues	<u>24,026,707</u>

INCOME BEFORE OTHER REVENUES	2,457,973
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### OTHER REVENUES (EXPENSES):

Capital appropriations	985,042
Capital grants	159,688
Other	<u>(37,931)</u>
Total other revenues	<u>1,106,799</u>

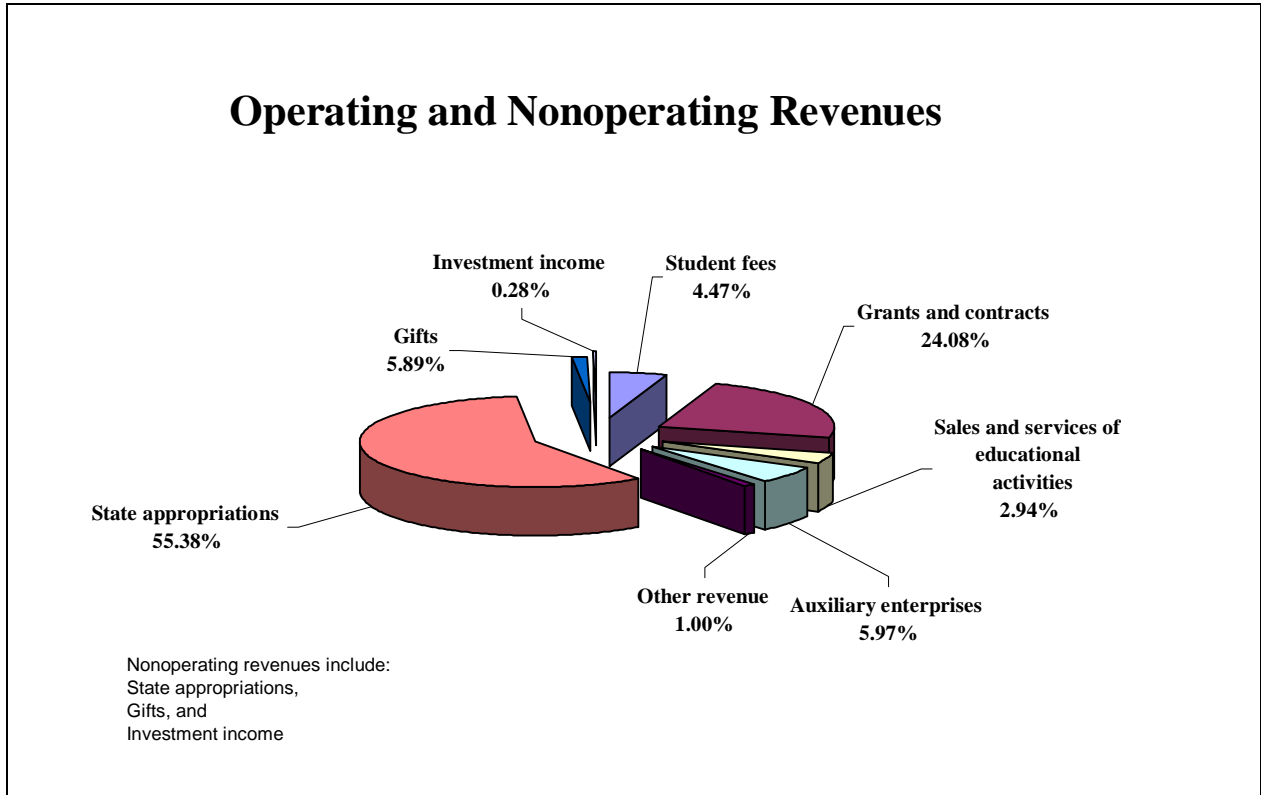
INCREASE IN NET ASSETS	3,564,772
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NET ASSETS—Beginning of year	<u>21,474,676</u>
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NET ASSETS—End of year	<u>\$ 25,039,448</u>
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## ***Revenues***

The College generates revenues from a variety of sources. The following is a graphic depiction of the revenues by source (both operating and nonoperating), which are used to fund the College's activities for the year ended June 30, 2004.



Total revenues for fiscal year 2004 increased \$5,341,548 from fiscal year 2003. Significant fluctuations from the prior year are highlighted as follows:

- Federal grants and contracts increased \$1,345,619 or 26%.
- State appropriations increased \$1,923,150.
- Nonoperating gift revenue increased \$1,896,581. This represented a 431% increase over the previous fiscal year. The increase was due to the gift of \$1,285,000 from the Foundation to the College for the construction of the Student Activity Center.

## ***Expenses***

Following is a summary of the College's expenses for the year ended June 30, 2004.

### **2004 EXPENSES**

#### **OPERATING EXPENSES:**

Personnel costs	\$ 23,405,954
Services	2,999,724
Supplies	4,401,836
Insurance, utilities, and rent	971,841
Scholarships and fellowships	2,424,299
Depreciation	1,483,259
Miscellaneous	<u>1,141,125</u>
Total operating expenses	<u>36,828,038</u>

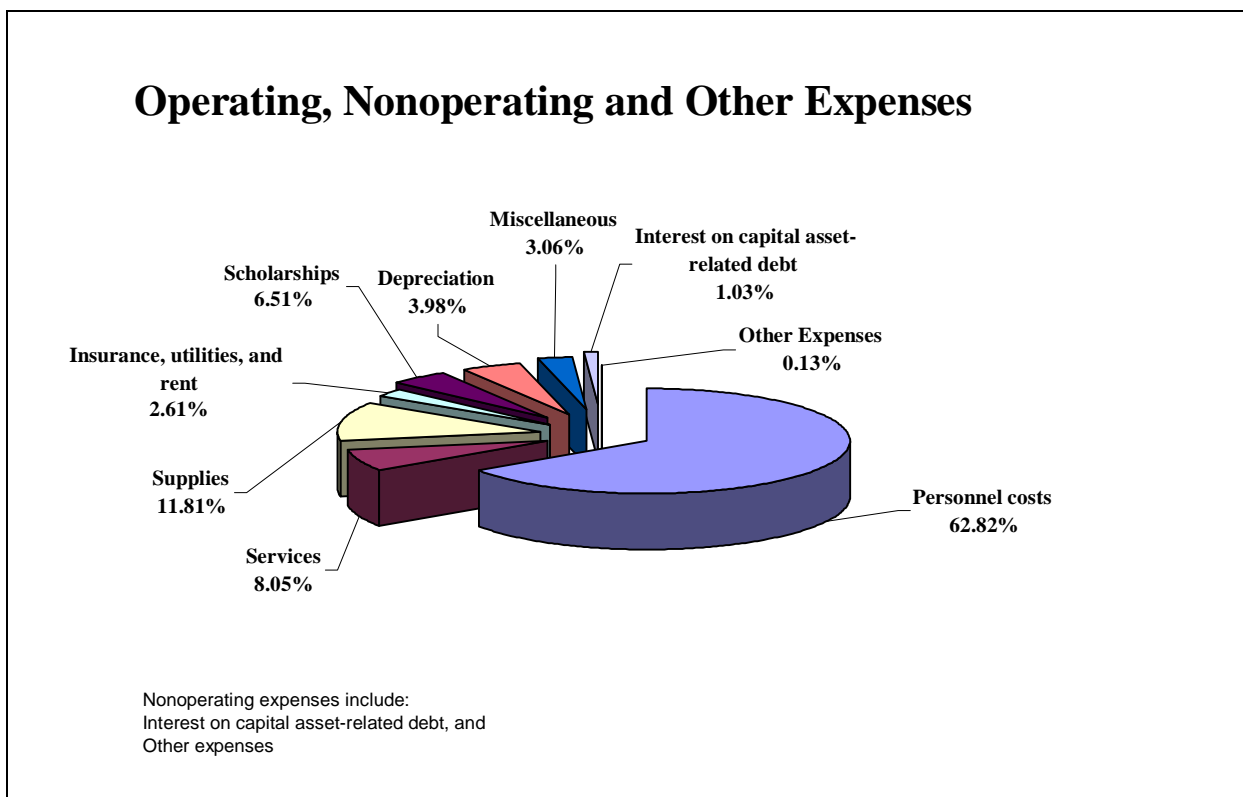
#### **NONOPERATING EXPENSES:**

Interest on capital asset related debt	383,046
Other	<u>8,927</u>
Total nonoperating expenses	<u>391,973</u>

OTHER EXPENSES—Other	<u>37,931</u>
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<b>TOTAL EXPENSES</b>	<b><u>\$ 37,257,942</u></b>
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The following is a graphic depiction of total expenses by natural classification for the year ended June 30, 2004.



Total expenses in fiscal year 2004 increased \$2,935,069 compared with the previous year. This represents a 9.2% increase between fiscal year 2003 to fiscal year 2004. While this is partially due to normal operations, several specific factors accounted for a portion of this increase as summarized below:

- Total personnel costs increased by \$950,044. Health insurance premiums paid by the College increased approximately \$350,000 over the previous year. Also, four new positions were funded through state appropriations and new staff were hired to perform services required under several large new restricted grants.
- Expenditures for services increased by \$637,534. The majority of this increase was attributed to four new federal grants.
- Expenditures for supplies increased by \$334,719. This increase was largely attributed to an increase in charges for meals provided to students by our third-party service provider, as well as increased food costs associated with the Senior Nutrition Program.
- Expenditures for scholarships and fellowships increased by \$799,632. The majority of this increase was related to increased distributions to students of Federal Pell Grant funds.

### ***Statement of Cash Flows***

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year.

The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used to perform the operating activities of the College. The second section reflects cash flows related to noncapital financing activities. This section depicts the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section displays cash flows from capital and related financing activities. This section reflects the cash used for the acquisition and construction of capital and related items. The fourth section presents the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash provided or used in operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

### **2004 SUMMARY STATEMENT OF CASH FLOWS**

CASH PROVIDED BY (USED IN):	
Operating activities	\$(20,564,139)
Noncapital financing activities	23,189,049
Capital and related financing activities	(2,169,589)
Investing activities	<u>118,745</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 574,066
 CASH AND CASH EQUIVALENTS—Beginning of year	 <u>6,764,993</u>
 CASH AND CASH EQUIVALENTS—End of year	 <u>\$ 7,339,059</u>

It is noteworthy that cash used by operating activities indicates an outflow of \$20,564,139. However, cash provided by noncapital financing activities shows an inflow of \$23,189,049. This situation reflects the GASB pronouncement that requires the College to recognize the State of Idaho appropriated revenues as noncapital financing activities while all the expenditures associated with these funds are reflected as operating activities. Unless GASB modifies their requirement in this regard, readers should expect this anomaly each year.

### ***Capital Asset and Debt Administration***

During fiscal year 2004, the College began construction on a new multipurpose student activity center. A secured student fee revenue note in the amount of \$1,126,307 was issued on July 15, 2003, to assist in the financing of this building. The College does not anticipate any responsibility for additional financing associated with this project.

The College has two existing bond issues, and no new bonds were issued in 2004. There were no modifications to existing bond ratings during 2004. There has been no significant changes in credit ratings or debt limitations that may affect future financing for the College. Additional information concerning property, plant and equipment and debt administration is detailed in Notes 1, 5, 6, and 7 as part of the notes to the financial statements.

### ***Component Unit***

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB 14*. This Statement clarified the definition of a component unit for financial reporting purposes. As a result, the College is discretely reporting the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets for the Foundation as part of the financial statements for the College. As the Foundation is not publishing separate financial statements, the Statement of Cash Flows is also discretely presented in the College financial statements.

At June 30, 2004, the Statement of Net Assets revealed that the total assets of the Foundation were \$2,655,695. \$1,516,684, or 57%, represented cash and investments related to the restricted endowments. These endowments largely provide scholarships to students attending the College. Property, net of depreciation, totaling \$690,904, comprised another 26% of the total assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reflected a decrease in net assets of \$884,494. This decline was principally due to the transfer of \$1,285,000 from the Foundation to the College to support the construction of the new Student Activity Center.

### ***Economic Outlook***

Fiscal year 2004 was a transitional period for the state economy. Idaho economists project an increase in state revenues for the forecast period from 2005 through 2007. In 2004, the College continued to consolidate its organizational structure to achieve fiscal efficiencies. Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year; beyond unknown economic variables that could universally impact all similar organizations.

The College's overall position remains stable. While State appropriated revenues continue to decline as a percent of total revenues, increasing student enrollment over the past four years has partially buffered these reductions. Significant student fee increases levied in fiscal year 2004 and again in fiscal year 2005 continue to be the norm and have also helped offset declining State contributions. The College's strategic planning process will seek other sources of revenue as institutional policy makers continue to enhance the role of Lewis-Clark State-College within the higher education system.

# LEWIS-CLARK STATE COLLEGE

## STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS	LCSC	Component Unit (Note 12)
CURRENT ASSETS:		
Cash and cash equivalents (Notes 2 and 12)	\$ 7,339,059	\$ 577,226
Student loans receivable (Note 4)	154,554	
Accounts receivable and unbilled charges (Note 3)	1,726,682	
Due from state agencies	172,480	
Inventories	276,531	
Pledges receivable		24,710
Other assets	<u>18,888</u>	<u>8,757</u>
Total current assets	9,688,194	610,693
NONCURRENT ASSETS:		
Restricted cash and cash equivalents (Note 12)		189,691
Student loans receivable—less allowance for doubtful loans of \$185,000 (Note 4)	857,925	
Investments held in trust (Note 2)	722,559	
Investments (Note 12)		1,144,307
Deferred bond financing costs	124,994	
Pledges receivable		20,100
Property, plant and equipment—net (Notes 5 and 12)	<u>25,683,227</u>	<u>690,904</u>
Total noncurrent assets	27,388,705	2,045,002
TOTAL ASSETS	<u>\$37,076,899</u>	<u>\$2,655,695</u>

See notes to financial statements.

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<b>LIABILITIES</b>	<b>LCSC</b>	<b>Component Unit (Note 12)</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 281,416	\$ 224,025
Accrued salaries and benefits payable	2,966,739	
Accrued interest payable	114,189	
Deposits	32,036	
Deferred revenue	430,819	
Funds held in custody for others	458,019	
Obligations under capital leases (Notes 6 and 8)	85,354	
Notes and bonds payable (Notes 6 and 7)	<u>672,474</u>	<u>          </u>
Total current liabilities	5,041,046	224,025
<b>NONCURRENT LIABILITIES:</b>		
Obligations under capital leases (Notes 6 and 8)	134,040	
Notes and bonds payable (Notes 6 and 7)	<u>6,862,365</u>	<u>          </u>
Total noncurrent liabilities	<u>6,996,405</u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<u>12,037,451</u>	<u>224,025</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	18,662,356	690,904
Restricted for:		
Nonexpendable	2,852	1,329,069
Expendable	1,385,939	340,248
Unrestricted	<u>4,988,301</u>	<u>71,449</u>
<b>TOTAL NET ASSETS</b>	<u>25,039,448</u>	<u>2,431,670</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 37,076,899</u>	<u>\$ 2,655,695</u>

# LEWIS-CLARK STATE COLLEGE

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2004

	LCSC	Component Unit (Note 12)
OPERATING REVENUES (Note 7):		
Student fees (net of scholarship discounts and allowances of \$3,194,189)	\$ 1,775,395	\$ -
Federal grants and contracts	6,519,353	
State and local grants and contracts	2,339,425	
Private grants and contracts	695,354	
Sales and services of educational activities	1,165,504	
Sales and services of auxiliary enterprises	2,368,564	
Gifts		223,235
Other	395,709	57,236
Total operating revenues	15,259,304	280,471
OPERATING EXPENSES:		
Personnel costs	23,405,954	
Services	2,999,724	
Supplies	4,401,836	
Insurance, utilities, and rent	971,841	
Scholarships and fellowships	2,424,299	
Depreciation	1,483,259	26,908
Miscellaneous	1,141,125	42,122
Total operating expenses	36,828,038	69,030
OPERATING GAIN (LOSS)	(21,568,734)	211,441
NONOPERATING REVENUES (EXPENSES):		
State appropriations	21,972,133	
Gifts (including \$1,516,852 from the Foundation)	2,336,869	
Net investment income	109,678	114,419
Interest on capital asset related debt	(383,046)	
Distributions to the College		(1,516,852)
Other	(8,927)	
Net nonoperating revenues (expenses)	24,026,707	(1,402,433)
INCOME (LOSS) BEFORE OTHER REVENUES	2,457,973	(1,190,992)
OTHER REVENUES (EXPENSES):		
Capital appropriations	985,042	
Additions to permanent endowments		306,498
Capital grants	159,688	
Other	(37,931)	
Total other revenues	1,106,799	306,498
INCREASE (DECREASE) IN NET ASSETS	3,564,772	(884,494)
NET ASSETS—Beginning of year	21,474,676	3,316,164
NET ASSETS—End of year	\$ 25,039,448	\$ 2,431,670

See notes to financial statements.

# LEWIS-CLARK STATE COLLEGE

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	LCSC	Component Unit (Note 12)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student fees	\$ 1,731,814	\$ -
Grants and contracts	9,284,969	
Sales and services of educational activities	1,186,264	
Sales and services of auxiliary enterprises	2,344,946	
Donations received		375,094
Payments to employees	(23,391,943)	
Payments to suppliers	(8,475,756)	
Other payments	(1,108,549)	(42,122)
Payments for scholarships and fellowships	(2,424,299)	
Loans issued to students	(310,923)	
Collections of loans to students	198,930	
Other receipts	400,408	57,236
Net cash provided (used) by operating activities	<u>(20,564,139)</u>	<u>390,208</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	21,972,133	
Gifts	2,314,495	
Additions to endowments		306,498
Agency accounts receipts	1,184,760	
Agency account payments	(2,282,339)	
Student loan receipts	7,460,064	
Student loan payments	(7,460,064)	
Distributions to the College		(1,491,253)
Net cash provided (used) by noncapital financing activities	<u>23,189,049</u>	<u>(1,184,755)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from capital debt	1,203,307	
Proceeds from the sale of property	35,870	
Capital grants	159,688	
Purchases of property, plant and equipment	(2,865,020)	
Principal paid on capital debt and leases	(361,372)	
Interest paid on capital debt and leases	(342,062)	
Net cash used in capital and related financing activities	<u>(2,169,589)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	118,745	24,074
Purchase of investments		(200,000)
Proceeds from sale of investments		18,216
Net cash provided (used) by investing activities	<u>118,745</u>	<u>(157,710)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>574,066</u>	<u>(952,257)</u>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>6,764,993</u>	<u>1,719,174</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$ 7,339,059</u>	<u>\$ 766,917</u>

(Continued)

# LEWIS-CLARK STATE COLLEGE

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	LCSC	Component Unit (Note 12)
RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Gain (Loss)	\$ (21,568,734)	\$ 211,441
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,483,259	26,908
Change in assets and liabilities:		
Receivables—net	(356,870)	
Due from state agencies	(105,456)	
Pledge receivables, net		151,859
Inventories	62,372	
Other assets	(4,439)	
Accounts payable and accrued liabilities	(157,398)	
Accrued salaries and benefits payable	119,467	
Deposits	1,096	
Deferred revenue	54,557	
Loans to students	(91,993)	
	<u>\$ (20,564,139)</u>	<u>\$ 390,208</u>
Net cash provided (used) by operating activities		
	<u>\$ (20,564,139)</u>	<u>\$ 390,208</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Property, plant and equipment acquired through Department of Public Works' appropriations	<u>\$ 985,042</u>	<u>\$</u>

See notes to financial statements.

(Concluded)

# LEWIS-CLARK STATE COLLEGE

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lewis-Clark State College (the “College”) is part of the public system of higher education in the State of Idaho. The system is considered part of the State of Idaho financial reporting entity. The State Board of Education, appointed by the Governor and confirmed by the legislature, directs the system. The College is located in Lewiston, Idaho. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

**Financial Statement Presentation**—Effective July 1, 2003 the College adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB 14. This Statement provides additional guidance for determining whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary institution. At this time, the College has determined that by definition the Lewis-Clark State College Foundation, Inc. (the “Foundation”) is a component unit of the College. The financial activity of the Foundation is discretely presented in the College’s financial statements.

**Component Unit**—The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The 26-member board of the Foundation is self-perpetuating and consists of graduates and friends of the college. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefits of, the College, the Foundation is considered a component unit of the College. See Note 12 for the relevant notes related to the Foundation.

**Basis of Accounting**—For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected to not apply FASB pronouncements issued after the applicable date.

**Cash and Cash Equivalents**—The College considers all liquid investments with a remaining maturity of three months or less at date of acquisition to be cash equivalents. Cash equity with state treasurer funds invested through the Idaho State Treasury Local Government Investment Pool is considered cash equivalents.

***Student Loans Receivable***—Loans receivable from students bear interest at the rate of 5% and are generally repayable in installments to the College over a 10-year period commencing 9 months after the date of separation from the College.

***Accounts Receivable***—Accounts receivable consists of fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Idaho. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

***Inventories***—Inventories are valued at the lower of first-in, first-out ("FIFO") cost or market.

***Noncurrent Cash and Investments***—Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets as well as endowments, are classified as noncurrent assets in the statement of net assets.

***Investments***—The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains and losses on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets. The total unrealized gain or loss was not significant for the year ended June 30, 2004.

***Property, Plant and Equipment***—Property, plant and equipment are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at date of gift. The College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets; 50 years for buildings, 10 to 40 years for building improvements, 10 years for library books, and 5 to 15 years for equipment.

***Compensated Absences***—Employee vacation pay that is earned but unused is accrued at year end for financial statement purposes. Included in accrued salaries and benefits payable in the statements of net assets at June 30, 2004, and as a component of personnel costs in the statement of revenues, expenses, and changes in net assets is \$791,699.

***Deferred Revenues***—Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

***Noncurrent Liabilities***—Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year.

**Net Assets**—The College’s net assets are classified as follows:

*Invested in Capital Assets, Net of Related Debt*—This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted—Nonexpendable*—Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Restricted—Expendable*—Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted*—Unrestricted net assets represent resources derived from student fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to the educational and general operations of the College, and may be used to meet current expenses for any lawful purpose, and in accordance with State Board of Education (“Board”) Policy.

When an expense is incurred that can be paid using either restricted or unrestricted resources, expense allocation decisions are made on a program-by-program basis.

**Income Taxes**—The College, as a political subdivision of the State of Idaho, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

**Classification of Revenues**—The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

*Operating Revenues*—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, state and local grants and contracts, and (4) interest on institutional loans.

*Nonoperating Revenues*—Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue resources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

**Scholarship Discounts and Allowances**—Student fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or other third parties making payments on the students’ behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College’s financial statements. To the extent that revenues from such programs are used to satisfy student fees and related charges, the College has recorded a scholarship discount and allowance.

***New Accounting Standards***—In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The College has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements. The requirements of this Statement are effective for the College's fiscal year ending June 30, 2005.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets and establishes requirements for application of related insurance recoveries. The College has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements. The requirements of this Statement are effective for the College's fiscal year ending June 30, 2006.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement generally requires that the College account for and report the cost and obligations related to postemployment healthcare and other nonpension benefits (OPEB) and include disclosures regarding its OPEB plans. OPEB costs are likely to be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of Statement No. 45 may be applied prospectively and do not require the College to fund its OPEB plans. The College may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded liability is required to be amortized over future periods. The requirements of this Statement for the College are effective for the fiscal year ending June 30, 2008. The College has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements.

## 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS HELD IN TRUST

Cash and cash equivalents are deposited with various financial institutions. Such deposits are categorized below to give an indication of the level of risk assumed by the College at year-end. Category 1 includes deposits that are insured or collateralized with securities held by the College or its agent in the College's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the College's name. Category 3 includes uninsured deposits, which are uncollateralized. Balances of deposits by such categories at June 30, 2004 consisted of the following:

Category 1	\$ 177,320
Category 2	5,280,265
Category 3	
Cash on hand (not categorized)	15,903
Cash equity with state treasurer (not categorized)	<u>1,865,571</u>
Total cash and cash equivalents	<u>\$ 7,339,059</u>

Of the cash and cash equivalents reported on the statements of net assets at June 30, 2004, \$748,982 is restricted by donors, granting agencies, or other contractual agreements. Book value of deposits does not materially differ from the bank balance of deposits.

**Investments Held in Trust**—The general investment policy of the College as adopted by the State Board of Education is that investments in securities are to be made with the objectives of maximizing long-term total return, ensuring safety of principal and providing satisfactory current income.

Funds may be invested in FDIC passbook savings accounts, certificates of deposit, U.S. securities, Federal funds repurchase agreements, reverse repurchase agreements, Federal agency securities, large money market funds, bankers acceptances, corporate bonds of AA grade or better, mortgage-backed securities of AA grade or better, and commercial paper of prime or equivalent grade. Authority to make investments in any other form requires prior Board approval. Such Board approval may be in the form of general authority to invest or reinvest cash, securities, and other assets.

Investments held in trust include cash and cash equivalents and government securities held in the College's name and are recorded at fair value. The entire amount of these investments is restricted by bond indentures or other contractual agreements.

The College's investments described above are categorized below to give an indication of the level of risk assumed by the College at June 30, 2004. Category 1 includes investments that are insured or registered, or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the College's name; or by the counterparty's trust department or agent but not in the College's name.

	<b>Investment Risk Category</b>			<b>Total</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
Investments held in trust—cash and cash equivalents	\$ -	\$ 722,559	\$ -	\$ 722,559
Total	\$ -	\$ 722,559	\$ -	\$ 722,559

### 3. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES

Accounts receivable and unbilled charges consisted of the following at June 30, 2004:

Student fees	\$ 369,588
Federal, state, and nongovernmental grants and contracts	783,327
Auxiliary enterprises	271,666
Sales and services of educational departments	35,185
Lewis-Clark State College Foundation, Inc.	224,025
Agencies	42,891
Total accounts receivable and unbilled charges	<u>\$ 1,726,682</u>

#### 4. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (“PSL”) and the Nursing Student Loan Program (“NSL”) comprise all of the loans receivable at June 30, 2004.

PSL requires the College to match 33% of the federal contributions. A portion or all of the loan principal and interest may be cancelled upon the occurrence of certain events. The amount of such cancellations is partially absorbed by the Federal Government. In the event the College should withdraw from PSL or the government were to cancel the program, the amount the College would be liable for as of June 30, 2004 is approximately \$801,000.

The NSL program requires the College to match one-ninth of the awarded funds.

As the College determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to College funded loans and the College portion of Federal student loans, as the College is not obligated to fund the Federal portion of uncollected student loans. The College has provided an allowance for uncollectible loans, which, in management’s opinion, is sufficient to absorb loans that will ultimately be written off.

Student loans receivable at June 30, 2004 consisted of the following:

	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Perkins Loan Program	\$112,516	\$ 920,688	\$1,033,204
Nursing Student Loan Program	<u>42,038</u>	<u>122,237</u>	<u>164,275</u>
	154,554	1,042,925	1,197,479
Less allowance for doubtful loans	<u>          </u>	<u>(185,000)</u>	<u>(185,000)</u>
Net student loans receivable	<u>\$ 154,554</u>	<u>\$ 857,925</u>	<u>\$ 1,012,479</u>

## 5. PROPERTY, PLANT AND EQUIPMENT—NET

Following are the changes in property, plant and equipment, net for the year ended June 30, 2004:

	Balance at June 30, 2003	Additions	Reductions	Balance at June 30, 2004
Property, plant and equipment not being depreciated:				
Land	\$ 1,813,427	\$ 49,197	\$ -	\$ 1,862,624
Capitalized collections	15,000			15,000
Construction in progress	<u>270,002</u>	<u>2,263,461</u>	<u></u>	<u>2,533,463</u>
Total property, plant and equipment not being depreciated	<u>\$ 2,098,429</u>	<u>\$ 2,312,658</u>	<u>\$ -</u>	<u>\$ 4,411,087</u>
Other property, plant and equipment:				
Buildings	\$ 29,554,532	\$ 1,030,502	\$ (161,033)	\$ 30,424,001
Furniture, fixtures and equipment	4,427,572	295,041	(52,789)	4,669,824
Library materials	<u>4,003,269</u>	<u>211,861</u>	<u>(3,475)</u>	<u>4,211,655</u>
Total other property, plant and equipment	37,985,373	1,537,404	(217,297)	39,305,480
Less accumulated depreciation:				
Buildings	(10,380,669)	(886,512)	18,625	(11,248,556)
Furniture, fixtures and equipment	(3,271,963)	(368,698)	49,916	(3,590,745)
Library materials	<u>(2,969,465)</u>	<u>(228,049)</u>	<u>3,475</u>	<u>(3,194,039)</u>
Total accumulated depreciation	<u>(16,622,097)</u>	<u>(1,483,259)</u>	<u>72,016</u>	<u>(18,033,340)</u>
Other property, plant and equipment—net of accumulated depreciation	<u>\$ 21,363,276</u>	<u>\$ 54,145</u>	<u>\$ (145,281)</u>	<u>\$ 21,272,140</u>
Property, plant and equipment summary:				
Property, plant and equipment not being depreciated	\$ 2,098,429	\$ 2,312,658	\$ -	\$ 4,411,087
Other property, plant and equipment at cost	<u>37,985,373</u>	<u>1,537,404</u>	<u>(217,297)</u>	<u>39,305,480</u>
Total cost of property, plant and equipment	40,083,802	3,850,062	(217,297)	43,716,567
Less accumulated depreciation	<u>(16,622,097)</u>	<u>(1,483,259)</u>	<u>72,016</u>	<u>(18,033,340)</u>
Property, plant and equipment—net	<u>\$ 23,461,705</u>	<u>\$ 2,366,803</u>	<u>\$ (145,281)</u>	<u>\$ 25,683,227</u>

The estimated cost to complete property authorized or under construction at June 30, 2004 is approximately \$13,177,000. These costs will be financed by state appropriations, available resources and/or long-term borrowing.

Certain land on which four campus buildings are located was donated to the College by the City of Lewiston. Under terms of the gift, ownership of the land reverts back to the City if it ceases to be used for educational purposes.

## 6. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2004 was as follows:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Leases, bonds and notes:					
Lease obligations	\$ 299,568	\$ -	\$ (80,174)	\$ 219,394	\$ 85,354
Revenue bonds	6,365,000		(260,000)	6,105,000	275,000
Notes	<u>247,730</u>	<u>1,203,307</u>	<u>(21,198)</u>	<u>1,429,839</u>	<u>397,474</u>
	<u>\$ 6,912,298</u>	<u>\$ 1,203,307</u>	<u>\$ (361,372)</u>	<u>\$ 7,754,233</u>	<u>\$ 757,828</u>

## 7. NOTES AND BONDS PAYABLE

Notes and bonds payable at June 30, 2004 consisted of the following:

Description	Balance Outstanding
Student Fee Refunding Revenue Bonds, Series 1998 (original issuance of \$6,335,000), issued to provide for the refunding of certain outstanding obligations and to fund improvements of the Student Union Building and related facilities, due in annual amounts increasing periodically from \$130,000 to a maximum of \$1,145,000, plus interest from 4.25% to 5.20% through the year 2018, collateralized by a pledge of gross revenues less operating and maintenance expenses of certain auxiliary enterprises (\$1,624,437 in 2004).	\$ 5,645,000
Student Fee Refunding Revenue Bonds, Series 1993 (original issuance of \$1,640,000), issued to provide for the refunding, redemption, and defeasance of certain outstanding obligations, due in annual amounts increasing periodically from \$145,000 to a maximum of \$160,000, plus interest from 5.35% to 5.50% through the year 2006, collateralized by a pledge of the gross revenues of the Student Union Building (\$899,210 in 2004).	460,000
Secured Student Fee Revenue Note, Series 2003 (original issuance of \$1,126,307), issued to finance construction of Student Activity Center, due in annual installments of \$138,656, including interest at 3.90% through July 2013, collateralized by dedicated student fees.	1,126,307
Unsecured note payable (original issuance of \$130,000), issued to purchase residential property, due on December 31, 2004, including interest at 4.04%. Renewable at the option of the lender.	104,172
Unsecured note payable (original issuance of \$150,000), issued to purchase land, due on December 31, 2004, including interest at 4.04%. Renewable at the option of the lender.	124,358
Unsecured note payable (original issuance of \$77,000), issued to purchase residential property, due on December 31, 2004, including interest at 3.04%. Renewable at the option of the lender.	<u>75,002</u>
Total bonds and notes payable	<u>\$ 7,534,839</u>

Principal and interest maturities on notes and bonds payable for the year ending June 30 are as follows:

	<b>Notes</b>		<b>Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2005	\$ 397,474	\$ 49,845	\$ 275,000	\$ 302,004
2006	97,671	40,985	285,000	288,246
2007	101,549	37,107	465,000	273,838
2008	105,580	33,076	315,000	255,560
2009	109,772	28,884	330,000	241,070
2010-2014	617,793	75,488	1,905,000	951,360
2015-2018			<u>2,530,000</u>	<u>383,860</u>
	<u>\$ 1,429,839</u>	<u>\$ 265,385</u>	<u>\$ 6,105,000</u>	<u>\$ 2,695,938</u>

## 8. CAPITAL LEASE OBLIGATIONS

The College has entered into several capital lease agreements to improve buildings and acquire certain equipment. At June 30, 2004, gross assets under capital leases total \$528,244 with \$335,444 included in buildings and \$192,800 included in furniture, fixtures and equipment. Future minimum lease obligations under these agreements for the year ended June 30 are as follows:

2005	\$ 97,705
2006	80,744
2007	51,923
2008	<u>11,205</u>
Total minimum obligations	241,577
Less amount representing interest	<u>(22,183)</u>
Present value of minimum obligations	<u>\$ 219,394</u>

## 9. RETIREMENT PLANS

**Public Employee Retirement System of Idaho**—The Public Employee Retirement System of Idaho (“PERSI”), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members’ years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. The benefits and obligations to contribute to the plan were established and may be amended by the Idaho State Legislature. Financial reports for the plan are available from PERSI upon request.

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 1.917% or 2.225% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2004, the required contribution rate for general employees was 9.77% and 5.86% of covered payroll for the College and its employees, respectively. The College's contributions required and paid were \$613,364, \$614,806, and \$622,681, for the three years ended June 30, 2004, 2003 and 2002 respectively.

***Optional Retirement Plan***—Effective July 1, 1990, the Idaho State Legislature authorized the Idaho State Board of Education to establish an Optional Retirement Plan ("ORP"), a defined contribution plan, for faculty and exempt employees. The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State of Idaho. The plan provisions were established by and may be amended by the State of Idaho.

New faculty and exempt employees hired July 1, 1990 or thereafter automatically enroll in the ORP and select their vendor option. Faculty and exempt employees hired before July 1, 1990 had a one-time opportunity to enroll in the ORP. Enrollees in the ORP no longer belong to PERSI. Vendor options include Teachers Insurance and Annuity Association—College Retirement Equities Fund and Variable Annuity Life Insurance Company.

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age. The contribution requirement (and amount paid) for the year ended June 30, 2004 was \$1,337,014, which consisted of \$702,458 from the College and \$634,556 from employees. These contributions represented approximately 7.72% of covered payroll for 2004.

Although enrollees in the ORP no longer belong to PERSI, the College is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the year ended June 30, 2004, this supplemental funding payment made to PERSI was \$275,882. This amount is not included in the regular College PERSI contribution discussed previously.

***Postretirement Benefits Other Than Pensions***—Employees who qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their medical insurance coverage through the College. The College partially funds these obligations by depositing 0.65% of employee gross payroll to PERSI who administers the plan as a cost-sharing, multiple-employer plan. The total contributions for the year ended June 30, 2004 were \$99,661.

The College also offers a life insurance plan for retired employees. During the year ended June 30, 2004 the College made expenditures totaling \$28,122 to purchase life insurance for 60 retired employees receiving these benefits. This program is accounted for by the College on a pay-as-you-go basis. See Note 1 for discussion of new accounting standard related to these types of benefits.

# 10. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

The following table shows natural classifications with functional classifications:

Functional Classification	Personnel Costs	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	\$ 12,767,693	\$ 983,519	\$ 1,244,987	\$ 78,287	\$ 215,905	\$ 215,786	\$ 222,771	\$ 15,728,948
Research	116,148	21,102	42,154			1,301	1,886	182,591
Public services	1,353,179	290,841	300,987	48,536		3,265	270,670	2,267,478
Libraries	547,917	235,255	62,518			240,219	250	1,086,159
Student services	1,924,028	233,488	138,554	6,851	190,233	2,364	68,086	2,563,604
Plant operations	1,098,850	51,838	498,890	509,281		916,943	9,753	3,085,555
Institutional support	2,076,288	428,671	226,913	106,374	2,000	20,914	236,302	3,097,462
Academic support	1,800,233	252,326	256,588	8,255		70,286	41,810	2,429,498
Scholarships and fellowships	157,276	195			1,794,203		64,849	2,016,523
Auxiliaries	<u>1,564,342</u>	<u>502,489</u>	<u>1,630,245</u>	<u>214,257</u>	<u>221,958</u>	<u>12,181</u>	<u>224,748</u>	<u>4,370,220</u>
Total expenses	<u>\$ 23,405,954</u>	<u>\$ 2,999,724</u>	<u>\$ 4,401,836</u>	<u>\$971,841</u>	<u>\$ 2,424,299</u>	<u>\$ 1,483,259</u>	<u>\$ 1,141,125</u>	<u>\$ 36,828,038</u>

## 11. CONTINGENCIES AND LEGAL MATTERS

Revenue from federal research and service grants includes amounts for the recovery of overhead and other costs allocated to these projects. The College may be required to make refunds of amounts received for overhead and other costs reimbursed as a result of audits by agencies of the federal government. College officials are of the opinion that the effect of these refunds, if any, will not have a significant effect on the financial position of the College.

The College is a defendant in litigation arising from the normal course of operations. Based on present knowledge, the College's administration believes any ultimate liability in these matters will not materially affect the financial position of the College.

## 12. COMPONENT UNIT DISCLOSURE

As described in Note 1, the Foundation has been determined to be a component unit of the College. Significant accounting policies associated with the College, also described in Note 1, apply to the Foundation, when applicable. Other disclosures at June 30, 2004 are as follows:

**Cash and Cash Equivalents**—Cash and cash equivalents are deposited with various financial institutions. These deposits are categorized below to give an indication of the level of risk assumed by the Foundation at the end of the fiscal year. Category definitions, as they apply, are described in Note 2. Balances of deposits by such categories at June 30, 2004 consisted of the following:

Category 1	\$ -
Category 2	766,917
Category 3	<u>          </u>
Total cash and cash equivalents	<u>\$ 766,917</u>

Of the cash and cash equivalents reported on the statement of net assets at June 30, 2004, \$702,316 are restricted by donors or other contractual agreements.

**Investments**—The Foundation has adopted a formal investment policy. This policy directs the Finance and Investment Committee in its investment oversight role.

Investments at June 30, 2004, include cash and cash equivalents as well as debt and equity mutual funds held in the Foundation's name. The entire amount of these investments is restricted by donors' or other contractual agreements.

The Foundation's investments are categorized below to give an indication of the level of risk assumed by the Foundation at June 30, 2004. Category definitions, as they apply, are described in Note 2. Balances of investments by such categories at June 30, 2004 consisted of the following:

	Investment Risk Category			Total
	1	2	3	
Common stock	\$ 11,100	\$ -	\$ -	\$ 11,100
Debt securities	3,090			3,090
Mutual funds	<u>1,130,117</u>	<u>          </u>	<u>          </u>	<u>1,130,117</u>
Total investments	<u>\$ 1,144,307</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,144,307</u>

***Property, Plant and Equipment—Net***—Following are the changes in property holdings for the year ended June 30, 2004:

	Balance at June 30, 2003	Additions	Reductions	Balance at June 30, 2004
Property holdings not being depreciated— Land	<u>\$ 97,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,082</u>
Other property, plant and equipment— Building	\$ 807,252	\$ -	\$ -	\$ 807,252
Less accumulated depreciation— Building	<u>(186,522)</u>	<u>(26,908)</u>	<u>          </u>	<u>(213,430)</u>
Other property, plant and equipment—net of accumulated depreciation	<u>\$ 620,730</u>	<u>\$ (26,908)</u>	<u>\$ -</u>	<u>\$ 593,822</u>
Property holdings summary:				
Property holdings not being depreciated	\$ 97,082	\$ -	\$ -	\$ 97,082
Other property, plant and equipment at cost	<u>807,252</u>	<u>          </u>	<u>          </u>	<u>807,252</u>
Total cost of property holdings	904,334			904,334
Less accumulated depreciation	<u>(186,522)</u>	<u>(26,908)</u>	<u>-</u>	<u>(213,430)</u>
Property holdings—net	<u>\$ 717,812</u>	<u>\$ (26,908)</u>	<u>\$ -</u>	<u>\$ 690,904</u>

***Related Party Transactions***—As of June 30, 2004, the Foundation had amounts due to the College of \$224,025 primarily for campaign administrative expenses paid by the College.

***Distributions to the College***—During the year ended June 30, 2004, the Foundation distributed \$1,516,852 to the College for both restricted and unrestricted purposes.

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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the State Board of Education:

We have audited the financial statements of Lewis-Clark State College (the "College") as of and for the year ended June 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the College's internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

October 29, 2004